

Nebraska Public Service Commission

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June 24, 2009

The Honorable Michael J. Copps
Acting Chairman
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

Dear Acting Chairman Copps:

On June 9, 2009, ranking members Barton and Stearns of the House Committee on Energy and Commerce wrote to you concerning the health of the federal Universal Service Fund (USF) and to request additional information about the contribution factor. While states were not asked to comment, the Nebraska Public Service Commission felt it was an opportunity to offer several recommendations that would alleviate some of the present burdens on the fund. Further, ironically, while costs continue to increase, there is a great deal of discussion to add the additional costs to the USF for broadband deployment. Thus, it is important to address funding reform as soon as possible.

The universal service fund provides assistance to millions of consumers through the high cost, schools, libraries, health care and low income mechanisms. The continued health of the USF is vital to consumers in Nebraska who live in rural, sparsely populated and high-cost areas. As you know, Nebraska law provides for a state universal service fund to supplement the federal USF. The NPSC's universal service mechanism provides roughly \$50 million per year in state support to: high-cost areas, low-income consumers, wireless telecommunications infrastructure and, a statewide telehealth network.

As the Congressional letter brings to light, the contribution factor has risen steadily over the years because demands on the USF have grown while industry revenues have declined. Increased pressures and decreased remittances have also plagued our state universal service program. Exacerbating this problem is the regulatory uncertainty at the federal level. Although we realize the Commission has worked tirelessly wading through the complex legal and policy issues surrounding comprehensive universal service and intercarrier compensation reform, these reform proceedings must produce results. We urge the Commission to continue with haste on universal service and intercarrier compensation reform resulting in clear, straightforward obligations applicable to all communications providers.

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In 2007, the Federal-State Joint Board on Universal Service recommended the Commission take immediate action to reign in the exponential growth of the high cost mechanism in the universal service fund. While the Commission did take quick action to, on an interim basis, cap the competitive eligible telecommunications carrier (CETC) support, the Commission needs to implement long term reform measures to stem the growth of the fund. The identical support rule permitted subsidization of multiple networks generating a need for a larger USF. The Commission should move quickly to transition universal service distributions to a mechanism whereby support is based on the carriers' own costs. In particular, wireless carriers should be required to demonstrate their own costs through a Commission approved cost methodology. While the identical support rule was seen as an efficient manner to administer support, it does not accurately reflect the cost of service and wireless carriers do not have the same regulatory burdens that are imposed on wireline carriers. Different consideration should be given to a wireless carrier in determining the level of support it should receive. To decrease the burden on ratepayers a wireless cost model should be adopted to identify rational support for wireless costs. Support should be based on households rather than access lines to reduce or at least stabilize the size of the federal fund. In addition, the Commission should transition away from supporting multiple wireline or wireless networks in a given area. The NPSC endorses the Joint Board's recommendation to create three funds, a carrier of last resort fund, a mobility fund, and a broadband fund, each of which can be tailored to meeting the Commission's goals—including a national broadband plan.

Meaningful reform measures will likely decrease the demands or pressures on the USF. In consideration of comprehensive reform, we urge the Commission to address the issues raised by the states and also by the Joint Board. To be specific, the Commission should encourage states without universal service programs to take on those initiatives, or, in the alternative, the Commission must take into consideration the measures that states have already implemented when crafting reform. These initiatives include but are not limited to reductions in access rate charges, local rate reform, and state universal service programs that provide for explicit supplemental support to carriers for high-cost areas. We recognize that the Telecommunications Act of 1996 did not require states to supplement the federal universal service fund with their own state programs. However, we believe Congress intended to have the Commission create incentives for states to supplement the federal universal service program sharing this obligation and we have done so. Some states have relied solely on the Commission to shoulder universal service burdens, while others, like Nebraska, have made sacrifices to take pressure off the federal USF.

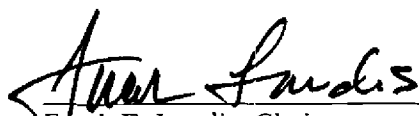
Consistent measures must also be taken in comprehensive intercarrier compensation reform. The NPSC joined other similarly situated states advocating fair treatment relative to early adopter states. The Commission must take into account the fact that some states have already eliminated much or all of existing implicit subsidies within their intrastate rate designs. States that have substantially decreased their intrastate access rates have also taken a variety of actions to allow carriers to recover lost revenue such as through local rate increases, explicit state support, or line item charges. Regardless of how the price was paid, however, consumers in early adopter states have


paid a significant price for these state access reforms. The Commission must move quickly towards rational intercarrier compensation reform that would equitably shift some of the burdens to state jurisdictions and remove the vast rate and access charge disparities that currently exist.

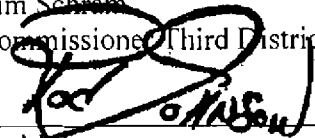
Finally, reform should include measures to fairly compensate non-rural carriers which provide services to high-cost areas. We believe the current methodology has delayed deployment of advanced services to many customers across the nation.

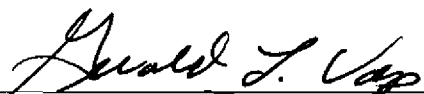
Thank you for your thoughtful consideration of these issues. We look forward to working with the Commission on comprehensive reform measures that will fairly provide universal support.

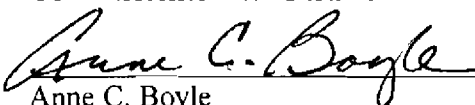
Sincerely,


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cc: The Honorable Jonathan Adelstein, Commissioner
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